

# BETASHARES GLOBAL SUSTAINABILITY LEADERS ETF

ASX: ETHI

Quarterly Report - December 2021

Performance <sup>1</sup>	1 Month	3 Months	6 Months	1 Year	3 Years	Inception <sup>2</sup>
	%	%	%	%	% p.a.	% p.a.
Fund Return (net)	1.60%	8.00%	11.87%	30.53%	30.31%	23.10%
Growth return	1.60%	8.00%	6.03%	23.49%	21.59%	17.36%
Income return	0.00%	0.00%	5.84%	7.04%	8.72%	5.74%
Index	1.65%	8.22%	12.23%	31.23%	31.01%	23.62%

**Past performance is not a reliable indicator of future performance.**

<sup>1</sup> Returns are calculated after fees & expenses have been deducted and distributions have been reinvested.

<sup>2</sup> Inception date for the Fund is 5th Jan 2017.

## Investment objective

The Fund aims to track the performance of an index (before fees and expenses) that provides exposure to 200 large global stocks (excluding Australia) which are climate change leaders (as measured by their relative carbon efficiency) and which are not materially engaged in activities deemed inconsistent with responsible investment considerations.

## Responsible entity

BetaShares Capital Ltd

## Distribution frequency

Semi-annual

## Fund Facts

Inception Date	5-Jan-17
Fund Size	\$2178.24m
Historical Tracking Error	0.15%
ASX Code	ETHI
Bloomberg Code	ETHI.AU
IRESS Code	ETHI.ASW

## Suggested minimum investment timeframe

At least five years

## Fees

	% p.a.
Management fees	0.49
Recoverable expenses	0.10

## Investment strategy

The Fund will generally invest in a portfolio of global equity securities that comprise the Index in proportion to the weightings of the securities in the Index.

The Index includes 200 large global stocks from developed market countries (excluding Australia) that have been identified as "Climate Leaders" and that have also passed certain eligibility screens designed to exclude companies with direct or significant exposure to the fossil fuel industry or that are engaged in other activities deemed inconsistent with responsible investment considerations.

Climate Leaders are companies that have carbon efficiency that places them in the top one-third of companies in the respective industry, or are otherwise superior performers in relation to "Scope 4" carbon emissions (also known as "avoided emissions").

• **Carbon impact:** calculated based on the total greenhouse gas emissions from a company's operations, fuel use, supply chain and business activities, divided by its annual revenue.

• **Avoided emissions:** superior performers are those companies involved in commercialising technologies that have net positive climate benefits through substantial greenhouse gas emission reductions (e.g. primary business activities in renewable energy, energy efficiency, sustainable agriculture and land use, and carbon sequestration).

## Investment strategy cont.

• **Fossil Fuel Screen:** is applied to the universe of Climate Leaders which removes companies with any direct involvement in the fossil fuel industry, as well as companies with material indirect exposure and those with particularly high use of fossil fuels.

Eligibility screens are applied to remove companies which have exposure to other activities deemed inconsistent with responsible investment considerations (subject to certain materiality thresholds):

- Gambling
- Tobacco
- Armaments
- Uranium and nuclear energy
- Destruction of valuable environments
- Animal cruelty
- Mandatory detention of asylum seekers
- Alcohol
- Junk foods
- Pornography
- ESG related reputational risk or controversy
- Human rights and supply chain concerns
- Chemicals of concern
- Lack of board diversity i.e. no women on the board of directors

The Index is weighted by market capitalisation, with a maximum weight per security of 4% at each annual rebalance date. Industry weights cannot exceed the corresponding industry weights of the Nasdaq Developed Markets Index (a traditional broad global equities benchmark), by more than 3%.

For more information on the Index, see the Index methodology document available on our website.

Top 10 positions <sup>1</sup>	%		%
NVIDIA Corp	6.8	ASML Holding NV	2.6
Apple Inc	4.9	Cisco Systems Inc	2.5
Home Depot	4.1	Adobe Inc	2.4
Visa Inc	3.4	Toyota Motor Corp	2.3
Mastercard Inc	2.9	PayPal Holdings	2.1

<sup>1</sup> As at 31 December 2021

Industry exposure	Fund Weight % <sup>1</sup>
Information Technology	42.1
Healthcare	15.8
Financials	14.4
Consumer Discretionary	14.0
Industrials	4.7
Real Estate	4.3
Communication Services	2.6
Consumer Staples	1.2
Utilities	0.5
Materials	0.3
<b>TOTAL</b>	<b>100.0</b>

<sup>1</sup> As at 31 December 2021

Country allocation <sup>1</sup>	%		%
United States	71.4	France	2.3
Japan	8.2	Germany	2.0
Netherlands	4.2	Hong Kong	1.8
Britain	3.4	Denmark	1.1
Switzerland	3.2	Other	2.3

<sup>1</sup> As at 31 December 2021

### Fund performance summary

The Fund returned 8.0% (in AUD) during the quarter. Assets grew from \$1,809m to \$2,178m over this period.

Information Technology and Healthcare were the strongest contributors, returning 9.73% and 10.81%, while contributing 4.02% and 1.64% respectively towards total return in AUD. Communication Services was the lowest contributor, and with returns of -4.14%, they detracted -0.12%.

Nvidia Corp, Apple and Home Depot were the largest three stock contributors to total return, and with returns of 41.07%, 24.86%, 26.13% in AUD, their contributions were 2.16%, 1.03% and 0.92% respectively. PayPal Holdings, Docusign and AIA Group were the lowest contributors, returning -28%, -41.22% and -13.32% in AUD, they detracted -0.82%, -0.20% and -0.18% respectively.

### Other commentary

Large financial companies continued to strengthen climate policies this quarter. ABP, the Dutch pension fund for civil servants and teachers, announced it will stop making new investments in all fossil fuels, and that it would divest its current €15bn holdings in coal, oil and gas by the first quarter of 2023. The board stated the announcement was partially due to an “insufficient opportunity for us as a shareholder to push for the necessary, significant acceleration of the energy transition at these companies.” In addition, French insurer AXA, First Republic Bank in the U.S. and Zurich of Switzerland all recently announced divestment policies.

The largest announcement from the financial industry at the COP26 summit was the Glasgow Financial Alliance for Net Zero (GFANZ), a group of 160 firms with \$70 trillion in assets, committing to net zero by 2050. Members agree to use science-based guidelines to reach net zero emissions, cover all emission scopes (with scope 3 emissions reporting historically sporadic and difficult to measure), include operational and financed emissions, 2030 interim target setting, and commit to transparent reporting and accounting in line with the UN Race to Zero criteria. While this is voluntary and drew criticism for the lack of detailed plans, it is expected to increase pressure on investors to align their lending with the International Energy Agency's forecast that staying within 1.5 degrees of temperature rise requires building no new coal, oil and gas infrastructure.

### Proxy voting & engagement

During the quarter, the Responsible Investment Committee (RIC) actively engaged in Proxy Voting on Environmental, Social, and Governance (ESG) resolutions for index constituents. For more information on Proxy Voting, please feel free to contact our Client Services team on 1300 487 577 (in Australia) or +61 2 9290 6888 (outside Australia).

Notable issues where the RIC voted against management included voting against changes to remuneration incentives at Paychex and Automatic Data Processing that increase executive compensation without reference to performance during the COVID-19 pandemic.

California's Department of Fair Employment and Housing (DFEH) filed a lawsuit against Activision Blizzard, collecting "numerous complaints about unlawful harassment, discrimination, and retaliation" from employees at the company. In the September 2021 quarter, the RIC engaged with Activision Blizzard, seeking to apply pressure on them to commit to the demands set by their employees, and to improve their workplace culture. The company had stated that they have engaged with law firm Wilmer Hale to conduct a review of their policies and procedures to ensure they maintain best practices to promote a respectful and inclusive workplace.

### Proxy voting & engagement continued.

The RIC further engaged with Activision Blizzard about significant cultural issues, particularly around treatment of staff that identify as women. As the company did not fully address the RIC's concerns, it discussed with a shareholder of Activision Blizzard on how to best collaborate on this engagement. This shareholder led the publication of an open letter, which the RIC supported, calling for the resignation of Bobby Kotick, the CEO of Activision Blizzard, who has had serious allegations levelled against him in relation to how he has managed the ongoing sexual harassment cultural issues within the organisation. The letter further called for the board's two longest-serving directors, Brian Kelly and Robert Morgado, to retire by the end of the year.

Lawsuits were brought against BMW and Volkswagen for refusing to tighten carbon emissions goals and rejecting demands to end production of fossil fuel-based cars by 2030. The RIC reached out to the car manufacturers to understand the justification for rejecting such demands and how the company plans on committing to carbon emission goals aligned to the Paris Agreement. Volkswagen was the first automaker to commit to the Paris Agreement.

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